CHAPTER 1

DEPOSIT FACILITIES IN ISLAMIC BANKING: Principles and Application

MBB4013

PRINSIP DAN AMALAN PERBANKAN ISLAM

Learning Outcome

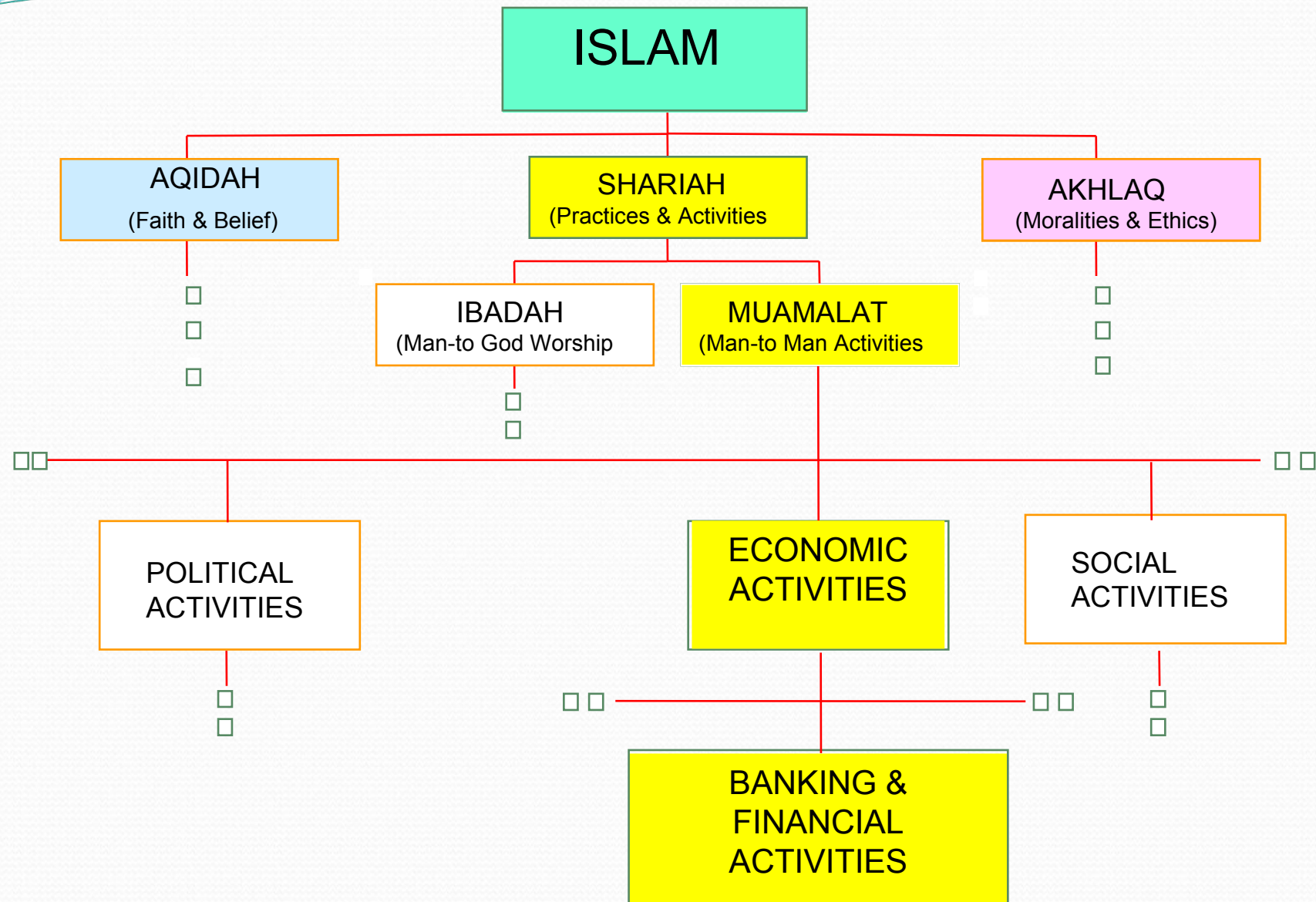
Towards the end of the lecture, students should be able to

1. understand the basic operations of Islamic deposits products.
2. recognize the main features of the products.
3. apply all the contractual elements including calculation of profit, documentation need, etc.

References and Additional Readings

1. Kamal Khir, Lokesh Gupta and Bala Shanmugam (2008), Islamic BAnking: A Practical Perspective, Pearson Longman, Petaling Jaya
2. Sudin Haron & Bala Shanmugam (2001), Islamic Banking System, Pelanduk Publications, Subang Jaya
3. Saiful Azhar Rosly (2005), Critical Issues on Islamic Banking and Financial Markets, Dinamas Publishing, Kuala Lumpur

INTRODUCTION
General View of Islamic Banking

Islamic View of Life of a Muslim

ISLAMIC BANKING PHILOSOPHY

Key Islamic Banking Indicators							
Market Structure	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Number of Institutions	**38**	**37**	**33**	**29**	**29**	**23**	**25**
• Islamic Banks	2	2	2	2	6	10	11
Banks participating in Islamic Banking Scheme							
• Commercial Banks	14	14	13	13	11	7	7
• Investment Banks / Merchant Banks [1]	5	5	4	4	4	4	6
• Finance Companies [2]	10	9	7	3	1	n.a	n.a
• Discount Houses	7	7	7	7	7	2	n.a
• International Islamic Bank	n.a	n.a	n.a	n.a	n.a	n.a	1
Number of Branches	**130**	**136**	**142**	**152**	**781**	**1178**	**1281**
• Islamic Banks	122	128	132	136	766	1167	1271
• Commercial Banks [3]	8	8	10	16	15	15	10
Islamic Banking Institutions - Assets, Financing and Deposits				**(RM million)**			
Total Assets	**58,929**	**68,070**	**82,196**	**94,565**	**111,824**	**133,031**	**157,125**
• Islamic Banks	17,328	20,160	20,955	24,854	43,433	73,809	94,894
• Commercial Banks	26,750	29,110	36,824	53,912	59,698	53,080	56,229
• Investment Banks / Merchant Banks	1,353	1,429	1,716	2,551	1,466	3,964	6,002
• Finance Companies	9,749	12,623	17,875	7,764	1,254	n.a	n.a
• Discount Houses	3,749	4,748	4,826	5,484	5,973	2,178	n.a
➔ % of total banking system	8.22	8.93	9.72	10.45	10.99	12.18	12.80
Total Financing	**28,201**	**36,717**	**48,616**	**57,868**	**67,364**	**78,513**	**89,857**
• Islamic Banks	7,561	9,158	9,765	11,449	20,627	39,476	49,108
• Commercial Banks	12,256	16,706	22,324	38,803	45,398	38,833	40,655
• Investment Banks / Merchant Banks	771	803	781	793	268	204	94
• Finance Companies	7,613	10,050	15,746	6,823	1,071	n.a	n.a
• Discount Houses	n.a	n.a	n.a	n.a	n.a	n.a	n.a
➔ % of total banking system	6.53	8.13	10.27	11.30	15.06	12.37	13.96
Total Deposits	**47,106**	**53,182**	**60,213**	**72,859**	**83,874**	**99,181**	**121,975**
• Islamic Banks	14,375	16,421	17,584	20,756	35,625	58,469	75,116
• Commercial Banks	22,031	23,353	26,519	39,775	42,775	36,867	42,027
• Investment Banks / Merchant Banks	673	684	852	1,527	797	2,572	4,832
• Finance Companies	7,664	9,094	10,966	5,952	684	n.a	n.a
• Discount Houses	2,363	3,630	4,292	4,849	3,993	1,273	n.a
➔ % of total banking system	9.51	10.13	10.41	11.16	11.24	12.19	14.02

Note:

[1] - With effect from 31 December 2006 all Merchant Banks merged with Discount Houses and Stockbroking Companies and are designated as Investment Banks

[2] - From 2006, Finance Companies merged with comercial banks under the concept of Banking and Finance Company (BAFIN)

[3] - Refer to full-fledged Islamic branches that offer Islamic banking products only

What are the differences with conventional deposits products?

- Prohibition of the ‘haram’ elements including interest in the products.
- Customer and bank relationship.
- Ensuring every contract applied possesses all its essential elements and meets its necessary conditions.

TYPES OF DEPOSIT-BASED ACCOINT IN MALAYSIA MARKET

Welcome to Bank Islam
http://www.bankislam.com.my/
Customize Links
Free Hotmail
Windows Marketplace
Windows Media
Windows
CALL CENTER 603 26 900
Home / Prayer Times / Sitemap / Contact Us / Join Us / Links
SEARCH
BANK ISLAM
CONSUMER BANKING
BUSINESS & CORPORATE BANKING
ABOUT US
Deposit
Financing
E-Banking
Wealth Management
Bancatakaful & Financial Services
Strategic Partnerships
Fees and Charges
Opening of Accounts
Bank Islam Property Auctions
Al-Awfar
Savings Accounts -i
Current Account -i
Investment Account -i
Family Plan
Wadiah
Mudharabah
Wadi
Ijraa
Pewani
THE EDGE-LIPPER
MALAYSIA
BUSINESS & INVESTMENT WEEKLY
A REUTERS COMPANY
ASBI Dana Al-Munsif
BEST MIXED ASSET MYR BALANCED I
PERIOD ENDING DECEMBER 31 2008 : FIVE YEARS
MANAGED BY
BIMB INVESTMENT
MANAGEMENT BERHAD
(Formerly known as BIMB Unit Trust Management Berhad)
TALK TO US
Hotline Numbers
Call Center
03-26 900 900
For inquiries on:
ATM/ Cash Deposit & Cheque ■ 24 Hours
Internet Banking ■ 7:00 am – 11:00 pm
Other Services ■ 9:00 am – 6:00 pm
Call 1-800-88-8686 after 6:00pm for Bank Islam Visa/ MasterCard
Branch Locator
Mounting debts?
PAST DUE

1. SAVINGS ACCOUNT

An account maintained by a customer with a depository institution for the purpose of accumulating funds over a period of time

TYPES OF ACCOUNT

1. Private individuals
2. Joint Individuals
3. Adult for minor's (Minor with/without I/C)
4. Societies, associations and clubs
5. Staff

WORKFLOW SAVINGS ACCOUNT

- Identification of opening account
- Application form / Specimen card
- Rules and Regulations
- Deposit / Withdrawal
- Loss Passbook / Closing Account
- Dormant Account / Unclaimed Monies

Savings Accounts -i

Print | Bookmark

Wadiah

Bank Islam offers Wadiah Savings Account facility for you to save your money. Based on Wadiah contract, this facility provides hassle – free safekeeping of your money and allows easy access for withdrawals whenever needed.

Features

Minimum opening

- RM10.00

Minimum balance

- RM1.00

Age requirement

- Open to all, 12 years and above

Types of Account

- Individual Account - For those who are 12 years old and above
- Trust
- Entrust account - For children under 12 years old opened with an individual adult
- Joint Account - For you to open the account jointly with another person
- External
- Association
- Societies

Contract

- Wadiah

Benefits

- Token (hibah) is given every month based on Bank's discretion
- Free Savings Passbook (upon request)
- Bankcard Facilities
- Salary Crediting & Sweeping Facility
- Standing Instruction Facility
- Zakat (tithes) on the savings paid by the Bank
- Others facilities:
    - Bill payment
    - bankislam.biz
    - bankislam.SMS

Electronic Banking Facilities

ATM

- Cash withdrawal
- Fund transfer
- Statement request
- Utility bills payment
- Zakat payment
- Deposit to Tabung Haji
- Contribution to Yayasan Pembangunan Ekonomi Islam Malaysia
- Internet Banking (bankislam.biz) registration
- SMS Banking registration, bankislam.SMS
- PIN Change
- MEPS Cash inquiry and loading

CLOSING OF ACCOUNTS

1. Upon request from customer
2. By operation of laws
3. At discretion of the bank

Both parties can terminate the contract at anytime.

DORMANT / UNCLAIMED MONIES ACCOUNT

1. Dormant – the account has not operated for 1 year or more
2. Considered as Unclaimed Monies if it continue to be dormant for the next 6 years or more
3. The account is to be closed and transferred to Registrar of Unclaimed Monies

2. CURRENT ACCOUNT

A demand deposit account, withdrawals from which may be made by a written, negotiable instrument

Al-Wadiah Current-i

WADIAH CURRENT ACCOUNT-i

It is a current account based on the Islamic contract of Al Wadiah. Al Wadiah refers to a concluded contract between the owner (depositor) of the goods (the money) and the custodian (Bank) for safe-keeping. The depositor grants the Bank their permission to utilize the money for whatever purpose permitted by SYARIAH. The Bank in turn guarantees the value of the deposit thus creating a 'Wadiah Yad-Dhamanah' contract.

FEATURES

- Cheques Book.
- Muamalah ATM Card upon request (personal account).
- Monthly statement.
- Minimum Deposit of RM1,000.00.
- A service charge of RM100.00 for each cheque which is returned unpaid due to insufficient funds.
- A service charge of RM10.00 per instruction for stop payment cheque.
- Half yearly service charge of RM10.00 is debited from accounts with balance of less than RM1,000.00.

BENEFITS

- Full ATM facilities for card holders.
- May apply for other banking facilities e.g. Corporate Terminal Services (for corporate customers only).
- Inter-branch transactions.
- Automatic fund transfer for collection accounts.

TARGET CUSTOMERS

- Individual who attains 18 years old and has the capacity to contract.
- Companies/Associations/Clubs etc., whose activities are not prohibited by Syariah and Malaysian Law.

HOW TO APPLY/DOCUMENT REQUIRED

- Application to be made in person.
- Complete the relevant application forms and specimen signature cards.
- To have ATM card, a separate ATM application form is to be completed (only for individuals).
- An introducer or a referee is required.
- A photocopy of identification document.
- To tender other relevant documents.

TYPES OF ACCOUNT

1. Private individuals
2. Joint Individuals
3. Companies, Sole Proprietorship
4. Societies, associations and clubs
5. Staff
6. Mandate

WORKFLOW CURRENT ACCOUNT

- Identification of opening account
- Application form / Specimen card
- Rules and Regulations
- Cheque book
- Deposit / Withdrawal
- Clearing processes
- Closing Account

3. TIME DEPOSIT INVESTMENT ACCOUNT

A deposit of funds in a savings institution under an agreement that:

1. *Funds is kept for a stated period of time OR*

2. *The institution may require a minimum period of notification before a withdrawal is made*

Sunday, 26 July 2009
Al-Ahad,
3 Shaban 1430 H.

Fajr	05:52	Maghrib	19:28
Zuhr	13:20	Isha	20:39
Asr	16:44		

Click here for other places' Solat time

EXCHANGE RATES

Currency	TT Sell	TT Buy
100 SAR	96.41	92.51
1 EUR	5.0591	4.9691
1 USD	3.5750	3.5100
1 GBP	5.9073	5.7773
1 AUD	2.9174	2.8474

View all rates

Fixed Term Investment Account-i

The Al Rajhi Fixed Term Investment Account-i is a flexible, easy and ethical way to get your money to work harder for you. And the peace of mind that comes with knowing that all Al Rajhi Bank's products protect you under the principles enshrined in the Shariah.

The Al Rajhi Fixed Term Investment Account-i offers:

- Make as many investments as you like
- Enjoy a minimum investment from as low as RM500
- High profit-sharing ratio up to 80%
- Flexible tenure up to 60 months
- SMS Alerts
- Is in Compliance with Al Rajhi Bank (Malaysia) Shariah Standard

The investment period and the profit-sharing ratio are agreed upfront. The performance of your investment funds are calculated on a monthly basis. And of course you can be assured that we only invest in Shariah-approved financing and investment activities.

Requirements

- Open to all individuals aged 18 and above
- RM1,000 minimum if the tenure is only 1 month
- Minimum initial deposit of RM500 for tenures longer than 1 month

Links:
Agreement Terms
Did You Know?

Approved by Al Rajhi Bank (Malaysia) Shariah Committee Ruling no: 12

Quick Links

TYPES OF ACCOUNT

1. Private individuals
2. Joint Individuals
3. Companies
4. Societies, associations and clubs
5. Staff

WORKFLOW
INVESTMENT ACCOUNT

- Identification of opening account
- Application form / Specimen card
- Rules and Regulations
- Placement of funds
- Investment Certificate
- Matured and Pre-matured withdrawal
- Loss Certificate / Closing Account
- Dormant Account / Unclaimed Monies

SYARIAH CONTRACTS APPLIED IN DEPOSIT ACCOUNT

CONTRACTS USED

IN

SAVINGS ACCOUNT

&

CURRENT ACCOUNT

1. WADIAH

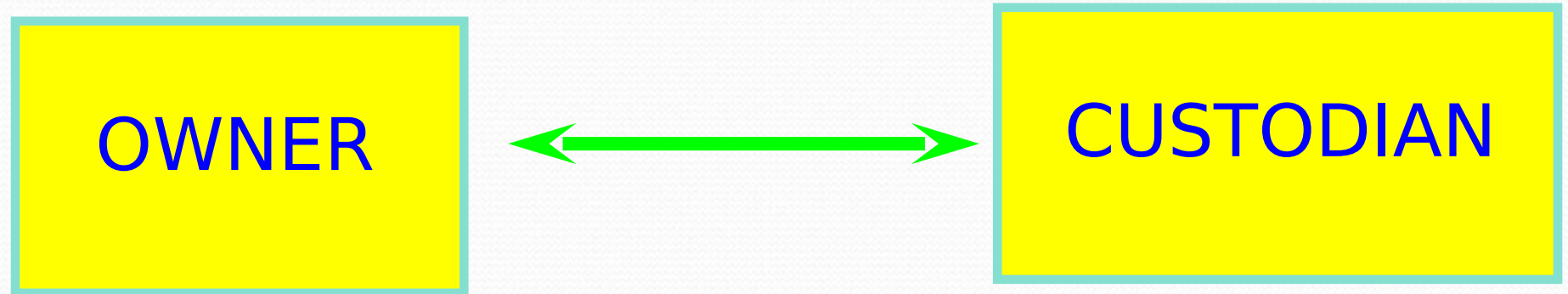
A deposit of funds in allowing somebody to claim the fund in the account

Bank acts a trustee / safe keeper with assurance of return

Wadiah is a contract (akad) between the owner of goods and custodian of the goods to:

1. protect the goods from being stolen, destroyed etc.

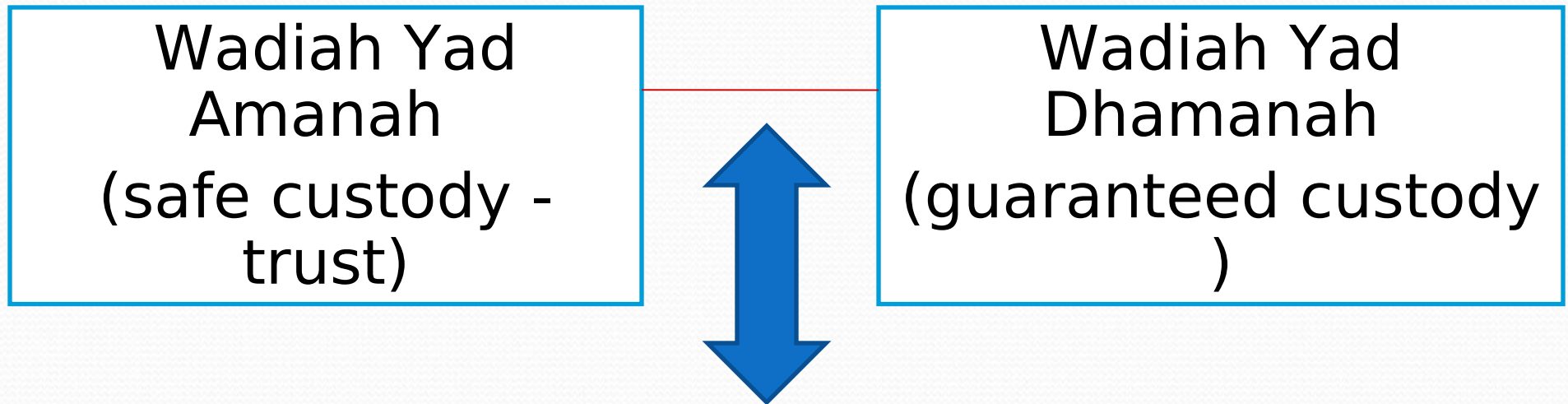
2. ensure the safe custody of the goods

Owner Deposits Goods

Assets, Money

Valuables &/or Documents etc

TWO FORMS OF WADIAH

Wadiah Yad Amanah
(safe custody - trust)

Wadiah Yad Dhamanah
(guaranteed custody)

- Fund are pooled together
- Utilization of Funds by the bank
- Imposition of service charges

ESSENTIAL ELEMENTS OF WADIAH

1. THE GOODS UNDER CUSTODY

2. OWNER OF GOODS

3. CUSTODIAN OF GOODS

4. CONTRACT : OFFER & ACCEPTANCE
   (IJAB/QABUL)

RETURNS STATEMENT

1. Bank is not allowed to promise

2. Customer is not allowed to request

3. Any promise or request is equivalent to ‘riba’ which is strictly prohibited in Islam.

4. However, the bank at it’s sole discretion may award the customer with a certain amount of returns as a token of appreciation for depositing with the bank.

RETURNS CALCULATION

1. Option A – Accumulated Daily Average Method

Monthly Average Daily Balance in the Month (MADB)=

$$\frac{\text{Total of End of Day Balances for the Entire Month}}{\text{No. of days in the Month}}$$

Profit Amount for the Month (Hibah amount)=

RETURNS CALCULATION

2. Option B: Daily Balance Method

Profit Amount for the Month (Hibah amount)=

P X R X T

Where:

P = Principal Amount (end of the day balance)

R = Profit Rates

T = Number of days /365

2. MUDHARABAH

Mudharabah is a contract between two parties, i.e. the owner of the capital and the entrepreneur.

MUDHARABAH CONTRACT

The depositor, who is the owner of the capital places a specified sum of money with the Bank, (who acts as the entrepreneur) for the purpose of participating in the profits made from the utilization of the fund.

TYPES OF MUDHARABAH

In term of the powers / authority given to the entrepreneur, Mudharabah may be categorized into two categories -

1. Mudharabah Mutlaqah (Unrestricted Mudharabah)

2. Mudharabah Muqayyadah (Restricted Mudharabah)

ESSENTIAL ELEMENTS OF MUDHARABAH

1. OWNER OF FUNDS / CAPITAL
2. ENTREPRENEUR
3. CAPITAL
4. UTILISATION OF FUNDS
5. PROFIT SHARING
6. CONTRACT : OFFER / ACCEPTANCE

CONTRACTS USED

IN

INVESTMENT

ACCOUNT

INVESTMENT ACCOUNT

Operates under the contract of MUDHARABAH (Trustee Profit Sharing).

The Bank accepts deposits from its customers looking for investments opportunities.

The Bank acts as the “provider of capital”. Both parties agree with the profit distribution / sharing ratio.

INVESTMENT ACCOUNT

The customer does not participate in the management of the funds.

In the event of a loss, the customer bears all the losses.

Profits generated from the use of the customers' funds will be distributed according to the predetermined ratio.

DISTRIBUTION OF PROFIT

Upon investing, only the distribution ratio is predetermined and not the actual amount of return. The return will only be known upon maturity or withdrawal of the investment.

Profit must be distributed according to the agreed ratio and not less.

IN THE EVENT OF LOSS

If the Mudharabah venture results in a loss, the owner of capital bears the loss entirely, i.e. the amount invested / principal amount.

On the other hand, the entrepreneur does not get anything from the venture.

PROFIT CALCULATIONS

1. Determine the Profit Sharing Ratio (PSR)
2. Base on Actual Profit
3. Distributed according to PSR

Calculation of profit :-

Principal (P) X Time (T) X Rate (R)/1200

Where:

P = Capital by customer
T = Period (Month)
Rate = Monthly Rate of Profit

ILLUSTRATIONS

Principal = RM10,000-00

Tenure = 9 months

Rate = 4-00%p.a

Profit = RM 10,000 X 9 X 4.0 / 1200

= RM 300

Interim Profit :-

For investment of 15 months and above interim profit will be paid every 6 month.

Profit due upon maturity will be:

Total Profit – Total Interim Profit Paid

DEPOSIT INSURANCE

pidm.gov.my | Laman Utama
http://www.pidm.gov.my/Home.aspx?lang=ms-MY
Customize Links
Free Hotmail
Windows Marketplace
Windows Media
Windows
Sabtu, 18 Julai 2009 | 12:55:21 PM
PIDM
Perbadanan Insurans Deposit Malaysia
Malaysia Deposit Insurance Corporation
Carian
GO
Laman Utama
Mengenai Insurans Deposit
PIDM Dalam Berita
Muat Turun Sumber
Mengenai PIDM
English | □□ | தமிழ
KUCHING, SARAWAK
KHAMIS, 2 JULAI 2009
8.30PG – 12.15TGH HARI
TAKLIMAT UMUM
MENGENAI
PERLINDUNGAN EFEKTIF KONSUMER KEWANGAN
Masuk
PERCUMA
KLIK DI SINI
UNTUK
MENDAFTAR
Paparan Utama
Bagaimana Insurans Deposit Berfungsi
Perlindungan insurans deposit disediakan
kepada anda secara automatik, jadi anda
tidak perlu mendaftar dan anda tidak perlu
Ketahui Mengenai
Deposit
Pendaftaran
Terima emel dari kami berkenaan dengan perkembangan
laman ini.
Nama :

INTRODUCTION

Deposit insurance is a system established by the Government to protect depositors against the loss of their deposits in the event a member institution is unable to meet its obligations to depositors.

In Malaysia, the deposit insurance system was brought into effect in September 2005 and is managed by Perbadanan Insurans Deposit Malaysia (PIDM). PIDM is an independent statutory body established under the Malaysia Deposit Insurance Corporation Act 2005 (PIDM Act).

BENEFITS

TO DEPOSITORS

1. PIDM insures depositors holding insured deposits with member institutions
2. Deposit insurance is automatic
3. There are no direct costs to depositors for deposit insurance protection –
4. Should a member institution fail, PIDM will promptly reimburse depositors up to the limit of the deposit insurance coverage provided under the PIDM Act

BENEFITS

TO THE FINANCIAL SYSTEM

1. PIDM promotes public confidence in Malaysia's financial system by protecting depositors against the loss of their deposits
2. PIDM reinforces and complements the existing regulatory and supervisory framework by providing incentives for sound risk management in the financial system
3. PIDM minimises costs to the financial system by finding least cost solutions to resolve failing member institutions
4. PIDM contributes to the stability of the financial system by dealing with member institution failures expeditiously and reimbursing depositors as soon as possible

PROTECTION COVERAGE

All types of depositor, whether businesses or individuals, are protected.

The maximum limit of coverage under the PIDM Act is RM60,000 per depositor per member institution.

This includes both the principal balance of a deposit and the interest/return.

PROTECTION COVERAGE

Ringgit denominated deposits that are eligible for protection under the deposit insurance system includes:

- Current and savings deposits
- Fixed deposits
- Investment deposits
- Certified cheques and bank drafts drawn or made against a deposit account

PROTECTION CALCULATION

E n A h m a d h a s i n c

E n A h m a d (a c c C

PROTECTION CALCULATION

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conventional accounts ar

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Joint

TUTORIAL ACTIVITIES

Find and Present the following instruction in a group of 3 in your tutorial session:

Give illustration on the features, benefits and profit calculation of one of the following accounts:

1. Wadiah Savings Account (Bank Islam)
2. Mudharabah Savings Account (Bank Islam)
3. Wadii (Bank Islam)
4. Ijraa (Bank Islam
5. Pewani (Bank Islam)
6. Current Account-i (al-Rajhi Bank)
7. Mudharabah GIA (Bank Muamalat Malaysia Berhad)
8. Fixed Term Investment Account-i (al-Rajhi Bank)
9. Tunai Kasih Account (Bank Islam)

THANK YOU

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